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REF: A. 08 NOUAKCHOTT 476
[1](#)B. 08 NOUAKCHOTT 664
[1](#)C. 08 NOUAKCHOTT 599
[1](#)D. NOUAKCHOTT 93
[1](#)E. NOUAKCHOTT 105

Classified By: Charge d'Affaires Dennis Hankins for reasons for 1.4 (b) and (d).

[1](#)1. (C) Summary: This cable is a follow-on to post's first following the money cable (REF A). Six months after the coup, the economic situation in Mauritania has deteriorated precipitously. There are increasing signs that the junta is running out of money and hard currency is becoming increasingly difficult to obtain. The junta's overspending in the first months of the coup combined with the effects of the global financial crisis have made this a particularly difficult time in Mauritania. The business community is becoming increasingly disenchanted with the junta's management of the economic situation, especially as they have not seen any economic benefit from their support for the junta. At this point, most are lukewarm toward the junta and just want a solution to the political crisis so that they can return to business as usual. In addition, Mauritania's elite have sent their wealth out of the country, a sign that they have little confidence in the country's future. As donor money and private investment have dried up, the junta may be counting on fresh cash infusions from Iran, Qatar, or Libya. Barring a political solution and the gradual return of donor assistance and private investment, the economy could spiral out of control and criminality and smuggling could start playing an increasingly important role in the economy. End Summary.

HARD CURRENCY SHORTAGES AND THE EXCHANGE RATE

[1](#)2. (C) The Central Bank has been experiencing foreign currency shortages since early December which have grown more serious in recent weeks. While nobody has exact figures, the general consensus is that the Central Bank has only about \$100 to \$150 million in reserves, down from the \$330 million targeted for 2008. Deputy General Manager of BNP-Paribas Assen Ouastani told EconOff February 3 that banks had not been able to get any hard currency for the past three weeks. He added that in just one day in December, the Central Bank had only been able to provide 14% of the foreign exchange requested. Representatives of Societe Generale concurred, telling post's financial management section that there was "no hard currency out there." President of the BCI bank and the Banking Association Isselmou Ould Tajidine was more circumspect. He told EconOff that while there were "tensions" regarding the exchange rate and hard currency, the

situation was not yet a crisis. He said that banks were still getting hard currency but delays had increased and in many cases banks were only getting about half of what they requested. The BMCI and BCI banks report that the Central Bank is only transferring hard currency abroad on a limited case by case basis.

13. (C) World Bank ResRep Francois Rantrua concurred with the assessments of BNP-Paribas and Societe Generale representatives, telling Carre that there is "no hard currency out there." IMF ResRep Marc Carre admitted that he was not entirely sure how much hard currency was out there and added that the IMF does not know exactly when the junta will run out of money. Discussing currency reserves and the exchange rate, he said "there is a problem" and noted that foreign reserves are declining and the balance of payments is under pressure. Former Minister of Economy and Finance Abderrahmane Ould Hama Vezzaz also concurred, telling A/DCM that Mauritania's terms of trade had deteriorated significantly in the past few months and added that soon the country would not be able to respect its obligations to foreign banks.

14. (C) Normally when there is a currency shortage there is a rush to buy foreign exchange. Carre noted that even if there is money coming into the country from smuggling and other illegal activities, people would still demand foreign exchange. However, there have been no reported shortages of dollars or euros on the parallel market and until recently foreign exchange was actually about 5% cheaper there. Carre called the situation "puzzling," reasoning that if there really is as little hard currency as everyone says there is, there should be a much greater difference between the parallel exchange rate and the official exchange rate. As a result, Carre said that initially he did not think that the reports of currency shortages were as serious as everyone said, but that he is now starting to question his earlier assessment.

15. (C) Carre now believes that this seemingly contradictory situation may be a sign that the government is cracking down on capital flight and illegal holdings of foreign exchange. Tajidine offered another explanation, pointing to euros flooding in from Mali and Senegal. He explained that prices for staples such as flour, rice, and sugar are much lower in Mauritania than in neighboring countries. He said that traders from these countries exchange their CFA for euros and then come to Mauritania, using euros to purchase food staples. Mauritanian traders then exchange the euros they receive for ouguiya on the parallel market, thus replenishing it regularly with hard currency. LES note that the Mauritanian banks control the parallel exchange market behind the scenes. The traders operating on the streets are all connected to the banks.

16. (C) While the Central Bank has always intervened to maintain the stability of the ouguiya, it holds regular foreign exchange auctions to allow market forces to set the exchange rate. Since the coup, there have been widespread complaints throughout the banking sector that the exchange rate is not being managed properly. The ouguiya (UM) has already fallen from 227 UM per dollar just before the coup to 257 UM per dollar as of February 11. Tajidine reported that the Banking Association met January 29 to discuss problems related to foreign exchange with "Minister of Finance" Sid'Ahmed Ould Raiss and Central Bank "Governor" Sidaty Ould Benhmeida. The Chief of Staff of the BCI bank reported that the shake-up at the Central Bank with the change in governors has caused difficulties because of a lack of continuity in personnel and policies (REF B). Several representatives from the banking industry complained about Benhmeida's lack of experience and apparent inability to deal with the current situation. The Central Bank is reportedly reviewing its current policies and strategies to improve the foreign exchange situation and to create security for foreign investors operating in Mauritania.

17. (C) As to how this situation could play out, Carre said

that the Central Bank maintains that the exchange market will continue to function. However, he said that if foreign reserves continue to decline, the Central Bank could resort to buying foreign exchange but establishing lengthy delays before it transfers it to local banks. According to Carre, if things continue as they are now, at a certain point the Central Bank will no longer be able to intervene. This could cause the situation to spiral out of control. In that case the Central Bank would be forced to either artificially hold currency or else there would be a rapid devaluation in the value of the ouguiya.

CAUSES OF THE CURRENCY SHORTAGE

¶8. (SBU) Both the political situation in Mauritania and the international financial crisis have contributed to the foreign currency shortages. Mauritania is extremely vulnerable to fluctuations on the international market because it exports nearly everything that it produces and imports nearly everything that it consumes. The country relies on iron ore, petroleum, and seafood exports for most of its foreign exchange. Both price and demand for all three products have dropped significantly in the past six months. SMCP, the national company in charge of all sales of frozen seafood products, continues to have trouble making sales. When it does manage to make a sale, it is for about half the price that the same product was selling for a year ago (REF C). Mauritanian fishing companies are increasingly remunerating their earnings through the parallel market or just keeping them abroad in European banks, meaning even less hard currency in Mauritanian banks. In terms of iron ore, both the price and demand for iron ore are down significantly compared to 2008. National mining company SNIM has reportedly been having a difficult time finding buyers for its iron ore and several recent sales have been cancelled or delayed. In the petroleum sector, Mauritania's sole producer Petronas is currently producing just 17,000 barrels per day. With prices hovering around \$40 per barrel, there is very little money going into government coffers from the petroleum sector. The situation could deteriorate further, as it is widely reported in Nouakchott that Petronas may just cap its current production wells in Mauritania to avoid losing money.

¶9. (SBU) The freezing of donor money has also exacerbated the hard currency shortage. A portion of the aid from many multilateral and bilateral donors such as the World Bank, EU, and France passes through the national budget and the central government, thus replenishing the Central Bank's foreign exchange reserves. While the amount of aid varies from year to year, this halt in donor assistance will likely result in the loss of hundreds of millions of dollars of hard currency for Mauritania. The vast majority of the \$2.1 billion pledged at the December 2007 Consultative Group meeting remains frozen. In addition, there has been almost no new private investment since the coup. What investments had been planned prior to the coup now appear to be on hold. Many business leaders lament the fact that there have been no new development projects since the coup to inject money into the economy.

IS THE JUNTA RUNNING OUT OF MONEY?

¶10. (C) There have been various reports that the government is having increasing difficulty meeting its obligations. IMF ResRep Carre continues to be concerned about the junta's abandonment of RACHAD, although the junta denies ever having abandoned it. RACHAD is the system implemented under Abdallahi's tenure to track all government expenditures and prevent extra-budgetary spending. Carre said that in October 2008 he visited the budget director to request a printout of the reports from RACHAD. He told the budget director that he would wait in his office until he had the reports. During his three hour wait, someone came into the budget director's office asking "is RACHAD really open again?" He noted that

the junta's use of RACHAD by opening it up when a payment needs to be made and then closing it again immediately afterward is a classic way for a government to hide that it is falling into arrears. Carre says that the regime has since presented him with a whole range of excuses for its closure, ranging from being careful about expenditures to blaming it on the reorganization of ministries. He said that while he has received assurances from the junta authorities that RACHAD is being used properly and remaining open once again, he has no faith in their assurances. He feared that whenever a new government does take power it will find a massive pile of unpaid bills. He reiterated once again that the IMF would need to do a very serious audit of the figures before ever restarting programs in Mauritania.

¶11. (SBU) There are several isolated reports that the junta has been late in paying salaries to government employees and some government employees have seen their salaries slightly reduced. At this point the reports remain isolated and post has not yet observed this as a widespread trend.

¶12. (C) The treasurer of the Tiris Zemour province Mohamed Mahmoud Ould Sidi Mahmoud contacted LES to report that "Minister of Finance" Sid'Ahmed Ould Raiss ordered provincial treasurers to bring all cash deposits to the Central Treasury in Nouakchott. In addition, he ordered all treasurers to stop paying pensions to retirees in cash and instead to open up bank accounts for them at local branches of the BMCI bank.

Comment: This appears to be an indication that the junta is running low on funds and is looking to access as many funds as possible. It may also indicate that the junta fears it will not be able to fulfill all of its pension obligations in the near future. It is therefore looking for a way to take pressure off the government if there are late payments by blaming them on technical problems related to the transfers or blaming the bank. End Comment.

¶13. (C) The Ministry of Finance has reportedly ordered tax authorities to increase their tax collection efforts to provide additional government revenues. The junta recently announced that it would be cracking down on unpaid vehicle taxes and immediately impounding any cars without the proper tax documentation. Police are also reportedly issuing more tickets for traffic violations. The junta may also be looking for additional funding from private investment. Vezzaz reported that the junta had been on the verge of awarding a contract to a company to operate the Port of Nouakchott that would have brought in investments from Persian Gulf countries to expand port operations. He said that Morocco objected strenuously, fearing that it would take away business from its own port operations. At Morocco's request, Aziz apparently cancelled the pending deal. Vezzaz did not know if Morocco promised the junta any financial support in return to cancelling the deal or just its continued political support.

2009 BUDGET

¶14. (C) The 2009 budget remains a mystery. The budget, which is normally approved and published in December, has still not been released. The junta has provided some general figures which show that the 2009 budget will be approximately 14% less than the 2008 budget, but the detailed budget has not been published. With the extra-budgetary spending that the junta has already been engaged in, the junta may have already been in a deficit situation before the 2009 budget year began in January. Even when the budget finally is published, donors and international organizations have little confidence that the numbers included in it will actually be meaningful or adhered to.

CAPITAL FLIGHT

¶15. (C) Mauritania's wealthy elite have apparently already

taken steps to protect themselves from any pending economic crisis. Representatives from the banking industry that EconOff spoke with were unanimous in their assessment that Mauritania's rich and powerful (including members of the junta) have already gotten their money out of Mauritania. The BCI bank reported that customer withdrawals were three times higher in the fourth quarter of 2008 compared to the first quarter of 2008. Comment: This is likely a sign of lack confidence in the junta and the current government and a belief that the political and economic situation could further deteriorate. As a result, those who can have sent their money to foreign banks where they believe it will be safer. End Comment.

DIFFICULTIES OBTAINING CREDIT

¶16. (SBU) Foreign banks appear to be much more wary of the stability of the ouguiya and Mauritanian banks than in the past. In the past, Mauritanian importers would obtain irrevocable letters of credit from their bank to purchase goods abroad. Importers were given a generous amount of time to pay the loan back and would do so at whatever the current rate for the ouguiya was. Now international banks are demonstrating an unwillingness to take exchange rate risks. They are requiring importers to pay off the loan 120 days after the arrival of the goods in Mauritania. They are also requiring merchants to pay at the exchange rate at the time the loan was authorized, not the exchange rate at the date of payment.

¶17. (SBU) Microcredit institutions in Mauritania report that they have stopped nearly all lending because they have no money to lend. Microcredit institutions are suffering not only from a lack of available credit, but also from a significant management shake-up in the sector. The junta has replaced nearly all of the general managers of the microcredit institutions in the past month. The junta has accused some former managers of corruption while simply making "personnel changes" at other institutions. In doing so, it has replaced most of the managers with members of Aziz's Ouled Bousba tribe or others have close to the junta. This shake-up has created uncertainty and caused many to question their confidence in institutions that are a vital resource for Mauritania's poor.

SAUDI COUNTERTERRORISM MONEY

¶18. (C) Vezzaz confirmed that Saudi Arabia had given Mauritania \$50 million for counterterrorism prior to the coup. He stated that the Saudis did not want this assistance to be made public. Prior to the coup, there was disagreement within the government as to how the money should be spent. The military asked President Abdallahi for the money immediately but he refused because he wanted to channel the money properly through Parliament and the national budget so there could be no question about extra-budgetary spending. Vezzaz said that the money was placed in a U.S. bank (he did not know which one) in the name of "Banque Centrale Mauritanienne." He said that he has heard that there is only \$3 million left in the account. Post understood that this money was likely used to pay for rallies and support for the junta, but Vezzaz said that he suspected that much of this money has been laundered by the junta.

IRAN, LIBYA OR QATAR TO THE RESCUE?

¶19. (C) The junta may be counting on assistance from Iran, Qatar, and/or Libya to make up for lost funding from Western donors (REF D and E). Junta representatives have met recently with officials from all three countries. Mauritania recently "froze" diplomatic relations with Israel. Post has seen no information that Iran, Qatar, or Libya has stepped in

to take the place of other donors in return for Mauritania freezing relations with Israel so far. However, actually cutting diplomatic relations with Israel would not only gain popular support for the junta, but may also gain financial support from one or more of these three countries. The junta appears to be moving in this direction, recently closing its Embassy in Tel Aviv and implying to the Israeli Ambassador that he should leave Mauritania.

THE NEXT SIX MONTHS

¶20. (C) Nearly all members of the business community are stressing the need for an end to the current political crisis. Ouastani called the coup "a terrible economic decision" and Tajidine stated that the country cannot continue indefinitely down this path, adding that things would become more difficult if the military remains. With the exception of the few businessmen such as Mohamed Ould Bouamattou, Bahaye Ould Ghadda and other members of Aziz's Ouled Bousba tribe that remain strong supporters of the junta, most are agnostic about the kind of solution so long as there IS a solution. Many also realize that given the opaque political situation, it is dangerous to be too strongly allied with either side because no one wants to be out of favor with the eventual winner. Of note is Tajidine's striking change in position toward the coup over the past six months. Just weeks after the coup, Tajidine sought out a meeting with EconOff on behalf of the Banking Association. He laid out the reasons why the coup was necessary for Mauritania's well-being and implored the USG to support the junta for the good of Mauritania. In the February meeting however, Tajidine said that he was "apolitical" and implied that he had exited the political realm almost entirely and was only an economic actor now. He said that he favored neither the junta nor the FNDD, but just wanted a solution to the current political crisis for the good of the economy.

¶21. (C) At best, the business community sees some sort of political solution and a gradual return of donor assistance and private investment. At worst, they see the economic situation spiraling out of control and the economy becoming one based on criminality and smuggling. Ouastani said that he had already started seeing signs of this, noting that BNP-Paribas had already cancelled several transactions that it did not believe were legitimate. He implied that criminal activity is already occurring in Mauritanian banks and said that they were not honest. As proof, he said that BNP-Paribas, with just 25 employees in Mauritania, paid more in salary taxes in 2008 than all of the Mauritanian banks combined. He also said that Mauritanian banks routinely purchase hard currency off the black market and said that one bank had recently purchased \$1.4 million off the black market and sent it to the Gambia by plane.

¶22. (C) Comment: Barring a political solution or rebound in the price and demand for Mauritanian exports in the next few months, it is hard to envision anything but continued economic decline. The junta has already picked the low-hanging fruit. Additional resources needed to sustain itself in power will become harder and harder to find. At some point Bouamattou and other wealthy junta supporters may realize that continued financial support for the junta is not sustainable and they have nothing to gain by continuing. If and when this occurs, they may be the ones with the power to finally convince the junta to leave. End Comment.

HANKINS